# Edgar Filing: CHROMCRAFT REVINGTON INC - Form 10-Q 

CHROMCRAFT REVINGTON INC
Form 10-Q
November 13, 2001


Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or $15(d)$ of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

The number of shares outstanding for each of the registrant's classes of common stock, as of the latest practicable date:

Common Stock, $\$ .01$ par value -- $9,573,248$ shares as of October 31, 2001

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Chromcraft Revington, Inc.

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Part I. Financial Information

Item 1. Financial Statements Condensed Consolidated Statements of Earnings (unaudited) Chromcraft Revington, Inc.
(In thousands, except per share data)

|  | Three Months Ended |  |  |  | Nine Months Ended |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | $\begin{aligned} & \text { pt. 29, } \\ & 2001 \end{aligned}$ |  | $\begin{aligned} & t .30, \\ & 000 \end{aligned}$ |  | $\begin{aligned} & \text { ept. 29, } \\ & 2001 \end{aligned}$ |  | $\begin{array}{r} \text { Sept } \\ 20 \end{array}$ |
| Sales | \$ | 52,282 | \$ | 62,062 | \$ | 166,552 | \$ | 20 |
| Cost of sales |  | 41,251 |  | 48,012 |  | 129,744 |  | 15 |
| Gross margin |  | 11,031 |  | 14,050 |  | 36,808 |  | 4 |
| Selling, general and administrative expenses |  | 7,079 |  | 9,013 |  | 22,551 |  | 2 |

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Liabilities and Stockholders' Equity

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Accounts payable
Accrued liabilities
Revolving credit facility
```

Current liabilities

Revolving credit facility
Other long term liabilities

Total liabilities
Stockholders' equity

Total liabilities and stockholders' equity

$$
\$ \quad 150,126
$$

$$
\$ \quad 170,444
$$

\$
$\qquad$

16,825 26,000

| 118,557 |  |  | 106,951 |
| :---: | :---: | :---: | :---: |
| \$ | 150,126 | \$ | 170,444 |

See accompanying notes to condensed consolidated financial statements.
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Condensed Consolidated Statements of Cash Flows (unaudited)
Chromcraft Revington, Inc.
(In thousands)
Nine Months Ended

| $\begin{gathered} \text { Sept. 29, } \\ 2001 \end{gathered}$ | $\begin{gathered} \text { Sept. } 30, \\ 2000 \end{gathered}$ |
| :---: | :---: |

Operating Activities
Net earnings
$\$ \quad 8,312 \quad \$ \quad 11,515$
Adjustments to reconcile net earnings to net cash provided by operating activities
Depreciation and amortization
4,514
4, 662
Deferred income taxes 443
(41)
Changes in assets and liabilities
Accounts receivable Inventories Accounts payable and accrued liabilities Other
$(1,739)$
$(4,008)$
7,688
$(7,973)$
1,000
1,986
1,020
35
Cash provided by operating activities
20,253
7,161
Investing Activities
Capital expenditures
$(1,509)$
$(3,322)$
Proceeds from disposals of property, plant and equipment
15

```
Financing Activities
Net repayment under revolving credit facility (19,200)
Proceeds from exercise of stock options
Repurchase of common stock
Cash used by financing activities
Decrease in cash (441)
Cash at beginning of period
Cash at end of period
See accompanying notes to condensed consolidated financial statements.
    Chromcraft Revington, Inc.
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Notes to Condensed Consolidated Financial Statements (unaudited)
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Notes to Condensed Consolidated Financial Statements (unaudited)
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\$ -
\$

Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation $S-X$. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statement presentation.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended September 29,2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001.

The balance sheet at December 31, 2000 has been derived from the audited financial statements at that date but does not include all information and footnotes required by generally accepted accounting principles for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in Chromcraft Revington's annual report on Form $10-\mathrm{K}$ for the year ended December 31, 2000.

Note 2. Withdrawal of Purchase Offer from Court Square Capital Limited
On July 17, 2001, Court Square Capital Limited, a unit of Citigroup, notified the Company that it had decided to withdraw its proposal to acquire the issued and outstanding capital stock of Chromcraft Revington, Inc. not owned by Court Square Capital Limited. Under the proposal, holders of Chromcraft Revington's publicly traded common stock would have received cash of $\$ 10.30$ per share in a transaction to take the Company private. Court Square Capital Limited owns 59.5\%

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of Chromcraft Revington's common stock.

Note 3. Earnings per Share of Common Stock
Weighted average shares used in the calculation of diluted earnings per share included dilutive potential common shares (stock options) of approximately 101,000 and 118,000 for the three and nine months ended September 29, 2001, respectively, and 150,000 and 133,000 for the three and nine months ended September 30, 2000, respectively.

Certain stock options to purchase shares of common stock were outstanding during the third quarter and first nine months of 2001 and 2000 , but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares during

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those periods and, therefore, their effect would be antidilutive. Options excluded from the computation of diluted earnings per share were as follows:


Note 4. Inventories

The components of inventories consisted of the following:

| (In thousands) |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
| $\begin{gathered} \text { Sept. 29, } \\ 2001 \end{gathered}$ |  | $\begin{gathered} \text { Sept. 30, } \\ 2000 \end{gathered}$ |  | $\begin{gathered} \text { Dec. 31, } \\ 2000 \end{gathered}$ |  |
| \$ | 14,701 | \$ | 19,256 | \$ | 17,729 |
|  | 8,383 |  | 9,401 |  | 9,083 |
|  | 27,177 |  | 32,490 |  | 30,870 |
|  | 50,261 |  | 61,147 |  | 57,682 |
|  | $(2,570)$ |  | $(2,724)$ |  | $(2,303)$ |
| \$ | 47,691 | \$ | 58,423 | \$ | 55,379 |

Note 5. Property, Plant and Equipment

Depreciation and amortization of property, plant and equipment is provided on a straight-line basis over the estimated useful lives of the assets as follows: buildings and improvements, 15 to 45 years; machinery and equipment, 3 to 12 years; and leasehold improvements, 5 to 10 years.

Note 6. Accrued Liabilities

Accrued liabilities consisted of the following:
(In thousands)

|  | $\begin{gathered} \text { Sept. } 29, \\ 2001 \end{gathered}$ |  | $\begin{gathered} \text { Sept. } 30, \\ 2000 \end{gathered}$ |  | $\begin{gathered} \text { Dec. 31, } \\ 2000 \end{gathered}$ |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Employee benefit plans | \$ | 2,391 | \$ | 5,153 | \$ | 4,450 |
| Salaries, wages and commissions |  | 1,688 |  | 2,334 |  | 1,586 |
| Vacation and holiday pay |  | 1,411 |  | 1,513 |  | 1,035 |
| Workers' compensation plans |  | 1,134 |  | 1,400 |  | 1,013 |
| Deferred income taxes |  | 860 |  | 280 |  | 1,018 |
| Other accrued liabilities |  | 6,858 |  | 6,145 |  | 4,592 |
|  | \$ | 14,342 | \$ | 16,825 | \$ | 13,694 |

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

Chromcraft Revington designs, manufactures and sells residential and commercial furniture through its wholly owned subsidiaries Chromcraft Corporation, Peters-Revington Corporation, Silver Furniture Co., Inc., Cochrane Furniture Company, Inc. and Korn Industries, Incorporated.

The following table sets forth the results of operations of Chromcraft Revington for the three and nine months ended September 29, 2001 and September 30, 2000 expressed as a percentage of sales.

|  | Three Months Ended |  | Nine Months Ended |  |
| :---: | :---: | :---: | :---: | :---: |
|  | $\begin{gathered} \text { Sept. 29, } \\ 2001 \end{gathered}$ | $\begin{gathered} \text { Sept. } 30, \\ 2000 \end{gathered}$ | $\begin{gathered} \text { Sept. } 29, \\ 2001 \end{gathered}$ | $\begin{gathered} \text { Sept. } 30, \\ 2000 \end{gathered}$ |
| Sales | $100.0 \%$ | $100.0 \%$ | $100.0 \%$ | $100.0 \%$ |
| Cost of sales | 78.9 | 77.4 | 77.9 | 76.0 |
| Gross margin | 21.1 | 22.6 | 22.1 | 24.0 |
| Selling, general and administrative expenses | 13.5 | 14.5 | 13.5 | 13.8 |
| Operating income | 7.6 | 8.1 | 8.6 | 10.2 |
| Interest expense | . 3 | . 9 | . 4 | . 8 |
| Earnings before |  |  |  |  |
| income tax expense | 7.3 | 7.2 | 8.2 | 9.4 |
| Income tax expense | 2.8 | 2.8 | 3.2 | 3.7 |
| Net earnings | $4.5 \%$ | $4.4 \%$ | 5.0 \% | $5.7 \%$ |

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Three and Nine Months Ended September 29, 2001 Compared to Three and Nine Months

Ended September 30, 2000

Consolidated sales for the three months ended September 29, 2001 were $\$ 52,282,000$, a $15.8 \%$ decrease from sales of $\$ 62,062,000$ for the three months ended September 30, 2000. For the first nine months of 2001, consolidated sales were $\$ 166,552,000$, a decrease of $17.3 \%$ from sales of $\$ 201,469,000$ for the same period last year. Shipments of occasional, dining room, bedroom, upholstered and commercial furniture were lower during the third quarter and first nine months of 2001 as compared to the corresponding periods of 2000 . The decline in sales was primarily due to softness in retail sales as a result of the economic slowdown. The consolidated sales order backlog at September 29, 2001 was lower as compared to September 30, 2000. In general, selling prices for the first nine months of 2001 were slightly higher as compared to the prior year period.

Gross margin as a percentage of sales was $21.1 \%$ and $22.1 \%$ for the three and nine month periods ended September 29, 2001, respectively, as compared to $22.6 \%$ and $24.0 \%$ for the three and nine month periods ended September 30, 2000, respectively. The decline in the gross margin percentage for the third quarter and first nine months of 2001 was primarily due to unabsorbed fixed overhead resulting from the lower sales volume.

Selling, general and administrative expenses as a percentage of sales were 13.5\% for the three and nine months ended September 29, 2001, as compared to $14.5 \%$ and $13.8 \%$ for the three and nine months ended September 30,2000 , respectively. The decrease in selling, general and administrative expenses as a percentage of sales for the three months ended September 29, 2001, as compared to the prior year period, was primarily due to lower bad debt expense.

Interest expense during the third quarter and first nine months of 2001 was $\$ 127,000$ and $\$ 631,000$, respectively, as compared to $\$ 540,000$ and $\$ 1,531,000$ for the same periods last year. The decreased interest expense for 2001 was due to lower average bank borrowings during the period and interest rate reductions.

Chromcraft Revington's effective income tax rate for the three and nine month periods ended September 29, 2001 was $39.0 \%$ as compared to $39.2 \%$ and $39.3 \%$ for the three and nine month periods ended September 30,2000 , respectively. The decrease in the effective tax rate for 2001 was due to lower state income taxes.

Liquidity and Capital Resources

Operating activities provided $\$ 20,253,000$ of cash during the nine months ended September 29, 2001, an increase of $\$ 13,092,000$ from the year ago period. The increase in cash flow from operating activities for 2001 was primarily due to a reduction in working capital investment, offset, in part, by lower net earnings. Due to the lower sales volume, accounts receivable increased $\$ 1,739,000$ during the first nine months of 2001 as compared to an increase of $\$ 4,008,000$ for the same period last year. Inventories decreased $\$ 7,688,000$ during the period as compared to an increase of $\$ 7,973,000$ during the first nine months of last year, reflecting the reduced operating activity.

Investing activities, primarily for capital expenditures, used $\$ 1,494,000$ of cash during the first nine months of 2001 as compared to $\$ 3,275,000$ during the same period last year. Chromcraft Revington expects capital expenditures to be less than $\$ 3,000,000$ for the year ending December 31, 2001.

Financing activities used $\$ 19,200,000$ of cash during the nine months ended

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September 29, 2001 to reduce bank indebtedness. During the first nine months of 2000, financing activities used $\$ 4,445,000$ of cash to acquire shares of Chromcraft Revington's common stock under a stock repurchase plan and $\$ 700,000$ to reduce bank indebtedness.

At September 29, 2001, Chromcraft Revington had unused capacity under its bank revolving credit facility, after reduction for outstanding letters of credit, of \$45,491, 000 .

Fourth Quarter 2001 Outlook

Entering the fourth quarter, Chromcraft Revington's incoming orders and backlog were below the year ago levels. Chromcraft Revington anticipates that fourth quarter earnings per share on a diluted basis will be between $\$ .18$ and $\$ .23$, as compared to $\$ .41$ last year.

New Financial Accounting Standards Board Statements

The Financial Accounting Standards Board (FASB) recently issued Statement No. 141, "Business Combinations" and Statement No. 142, "Goodwill and Other Intangible Assets." Statement No. 141 requires that the purchase method be used for all business combinations initiated after June 30, 2001. Statement No. 142 requires, among other things, that goodwill no longer be amortized to earnings, but instead be reviewed periodically for impairment. The amortization of goodwill ceases upon adoption of Statement No. 142 on January 1, 2002. As of the date of adoption, Chromcraft Revington expects to have unamortized goodwill of $\$ 28,180,000$, which will be subject to the transition provisions of Statements 141 and 142. Amortization expense related to goodwill was approximately $\$ 1,248,000$ and $\$ 978,000$ for the year ended December 31, 2000 and the nine months ended September 29, 2001, respectively. Chromcraft Revington is currently evaluating the impact of these Statements on its financial statements.

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

Certain matters included in this discussion are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Certain forward-looking statements are contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations." These forward-looking statements can be generally identified as such because the context of the statements includes words such as "plans," "may," "anticipates," "estimates" and "expects" or words of similar import. All forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those reported or expected as of the date of this report. Among the risks and uncertainties that could cause actual results to differ materially from those reported or anticipated are (i) general economic conditions, (ii) cyclical nature of the furniture industry, and (iii) competition in the furniture industry.

Item 3. Quantitative and Qualitative Disclosures About Market Risk
Borrowings under Chromcraft Revington's bank credit facility bear interest at a variable rate and, therefore, are subject to changes in interest rates. The impact of an interest rate change is not considered material.

Part II. Other Information

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Item 6. Exhibits and Reports on Form 8-K
(a) Exhibits

None
(b) Reports on Form 8-K

On July 18, 2001, Chromcraft Revington filed a Current Report on Form 8-K reporting that the Company had received notice from Court Square Capital Limited ("Court Square"), a unit of Citigroup, that Court Square had withdrawn its proposal to acquire the issued and outstanding capital stock of Chromcraft Revington not owned by Court Square and its affiliates.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, Chromcraft Revington, Inc. has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

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    Chromcraft Revington, Inc.
    (Registrant)
/s/ Frank T. Kane
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Frank T. Kane
Vice President - Finance
    (Duly Authorized Officer and
Chief Financial Officer)
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Date: November 13, 2001

